THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
(Registration Number 91/03485/08)

MANAGEMENT REVIEW
30 JUNE 2000

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The Small Enterprise Foundation (SEF) is a non-profit, non-government organisation dedicated to ending poverty and unemployment. The organisation was registered in July 1991 and disbursed its first loans in January 1992. The following is a summary of performance :

Statistics as at 30 June 2000		
	2000	**1999**
Loans Disbursed Since Inception :	R 49 965 600[1]	R 30 757 600
No. of loans disbursed since Inception :	52 845	36 978
Number of Enterprises currently assisted :	11 214	8 632
Current average loan size disbursed :	R 1 275	R 1 148
Principal Outstanding :	R 8 711 075	R 5 585 765
Defaults :	R 2 894	nil
Delinquency (% of portfolio with arrears over 1 day) :	2.5%	0.1%
Delinquency (% of portfolio with arrears over 30 days) :	0.6%	nil
Re-scheduled loans (due to illness) :	R 58 945	R 18 299
Death Write-Offs for the year :	R 40 177	R 8 530
Total Savings as held by Groups :	R 2 243 406	R 2 026 610
Number of Jobs positions currently supported including the client :	23 585	19 772
% Women clients :	97%	97%
Number of clients per loan officer :	184	173
Number of Programme staff :	86	71
Head Office, Development and Training staff :	12	. 9
Operational Self-Sufficiency :	64%	56%

[1]At the financial year end the Rand/US$ exchange rate was R6.80 = US$1.00

Does SEF have Impact?

As part of SEF's in-depth impact assessment work Sarah Siaga was interviewed three times over a period of two years. This case study from her life demonstrates the process of changing impact over time.

During the first round of interviews, when Sarah was on her second loan, it was difficult to talk to her because of the painfulness of her situation. Prior to joining SEF she had a reasonable business which had collapsed with the breakdown of her fridge. Joining SEF offered her an opportunity to pick things up again. She made a slow start with a business she was not familiar with and which was not very productive but things progressed slowly. Later in this loan, however, her chronic illness led to the collapse of the business and created a very difficult situation at home where she and her five children were barely able to survive.

In this situation many members would have dropped from the programme, however, through the support of SEF staff and her fellow centre members, she was encouraged to remain within the programme, all-be-it taking a very small token loan. The second loan was a period of hardship for Sarah and the business continued at a very low level, providing insufficient income for her family. She did, however, learn about how to improve the business, and was in a supportive environment within SEF. She decided to train her daughters to run the business, an important move given her frequent illness.

On completion of her third loan, she now had much more confidence in her ability to succeed with her business and was given a huge jump in loan size from R 100 to R 1 200. This loan size was inappropriate according to SEF policies, but in her case she managed it well.

Following the advice of other centre members she travelled to Johannesburg and bought stock of clothes, umbrellas etc. This was the turning point for her, and the business went from strength to strength. She now has a very strong business, selling mostly clothes but also fruit and vegetables, and cold drinks from her new fridge. Sarah is now on her fourth loan of R 2 000. Three weeks prior to her third interview for the impact assessment she had travelled to Johannesburg and bought R 1 500 of stock. On the day of the interview she had bought R 450 stock of fruit and vegetables.

This transformation has had a huge impact on Sarah's life. She now talks with confidence and pride about SEF, and points out how the poor who are part of SEF are now becoming recognised in the village as people with leadership abilities - "their children are from a disciplined SEF family!" On a personal level she can afford the health treatment she needs and is now rarely sick. She has been able to send one of her children to tertiary education and has three more in high school. She now no longer struggles to feed her family, and they are able to eat well.

Since her husband's death some years ago she has lived with her mother and other relatives, moving between houses. Now she is at a stage where she can afford to build her own house, and is busy making plans. She has even bought furniture and other household items for this future house.

Does SEF have Impact? (continued)

Essentially Sarah was a very poor women, with few resources. She did have previous business experience, but it is highly unlikely that without the support and encouragement from SEF members and staff, and the loans to finance her business, that she would have progressed much beyond the poverty that she was living in on joining the programme.

Poverty Outreach

In 1994 SEF concluded that only 30%-40% of people it was reaching were very poor i.e. living below half the poverty line. This experience taught the organisation that in order to reach this group it is necessary to establish a programme which exclusively targets the very poor. We learnt that one cannot mix the poor and very poor in the same programme. In relation to the very poor the less poor have more resources and often more self-confidence and skills. They are not as vulnerable to shocks as the very poor are, thus they make better clients, they save more, cope better with repayments and graduate more easily to larger loans. Naturally they are attractive clients for any loan officer and for the organisation. Thus an organisation may begin slowly to change its practices in order to serve these clients better. This will inevitably lead to policies that are difficult for the very poor to contend with and may lead to negative impact on the very poor. Such policy changes are also likely to then attract more non-poor clients, as opposed to very poor clients, who may in fact be alienated by the new policies and less likely to join.

In answer to this challenge SEF launched Tšhomišano Credit Programme[2] or TCP.

TCP is a programme that is exclusively for the very poor. A poverty targeting approach, Participatory Wealth Ranking, is used to identify the poorest households and only the women of these households are eligible to join TCP. None of those who are identified as not being amongst the very poor may join the programme.

SEF's Participatory Wealth Ranking approach has received considerable international attention with Anton Simanowitz, SEF's Development Advisor, who operationalised this tool for SEF, and Ben Nkuna, TCP's Zonal Manager, being asked to co-author a paper on practical poverty targeting along with Professor Sukor Kasim. This paper was one of four prepared for discussion at the plenary meetings of the Microcredit Summit Meeting of Councils held in June 1999, in Abidjan, Côte d'Ivoire and for the African Regional Microcredit Summit meeting in October 2000. Together with CASHPOR they have also produced and published a technical manual "Cost Effective Targeting: Two Tools to Identify the Poor".

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2 Tšhomišano is a Northern Sotho word meaning "Working Together"

General Description of the Credit and Savings Methodology

In order to receive a loan an applicant must form a group of five with four others who are interested in gaining access to SEF's services. The strength of the group formation is then rigorously checked and where weakness is detected, the applicants are motivated to find alternate members. The group is then given preliminary recognition and begins a series of training sessions which focus on the credit and savings methodology, motivates applicants to begin regular savings and deals with the duties and responsibilities of group members. During the training process the group will be introduced to a Centre i.e. a fortnightly meeting of all groups from a section of a village under the leadership of an elected Centre Committee.

Once the group has been recognised by the Centre and has completed its training it will go on to a final recognition "test" by a senior manager. If recognised the group may apply for loans. Each member's business plan is discussed and refined during the training and each member applies for her own loan which she will utilise for her own income generating activity. All group members guarantee the loan repayments of their fellow group members and will be called upon to assist any member who falls into arrears.

Within a few days of disbursement members are expected to utilise their loans in accordance with their pre-agreed business plans. Group leaders check as to whether loans have been used according to these plans while the SEF Field Worker checks the loan utilisation of all first and second loans and spot checks thereafter. The principal aim of this process is to encourage members to assist each other and to demonstrate to members that the utilisation of their loans in accordance with their business plans is the first step towards success.

During the loan cycle the group leadership has the responsibility of checking the progress of each member's business. The results of these visits are reported at each fortnightly Centre meeting.

Towards the end of the loan cycle the Field Worker assesses the growth of the businesses for those who wish to apply for further loans. She then assists them to work out an appropriate loan size for the next loan.

SEF encourages regular savings by requiring groups to open a savings account at a local post office. Through this savings, borrowers build up a fund which they can fall back on when faced with mishaps and tragedies. At fortnightly Centre meeting members are encouraged to save into their account, the average amount saved ranging from R 2 to R 10 per member per meeting. This account is entirely controlled by the group.

Currently 97% of SEF clients are female. Typical enterprises include hawking of fruit and vegetables and new or used clothing, small convenience shops, and dressmaking. 18% of clients are involved in a manufacturing enterprise. On average, each business employs 2.1 individuals, including the owner, on a full-time or part-time basis.

SEF's Impact Assessment System

SEF's impact assessment system, initiated during 1997, is a key tool for understanding, and focussing staff awareness on, our impact on the lives of clients. This has led to the creation of a "culture of impact", a focus on identifying and supporting the most vulnerable members, and a determination to prevent negative impact. The understanding and monitoring of impact is central to improving methodology and thereby, increasing the chances of positive impact.

Very often impact assessment is externally driven. It is included as a condition in a funding agreement, or is part of a donor's assessment of an organisation. This leads to the perception that impact assessment is large scale, costly and divorced from the day to day, on-the-ground practicalities. SEF does not set out to prove impact, but to improve impact. Given this priority and resource constraints, our methodology is less comprehensive and less costly than traditional impact assessments. However, positive practical changes, for example in reducing TCP's drop-out rate, have demonstrated the usefulness of the impact assessment work in terms of improving impact. This, combined with a deeper understanding, developed through qualitative research, provides credible impact conclusions.

The impact assessment system has a number of inter-related components :

Livelihood case-studies: The foundation of the system is a detailed understanding of members' livelihoods and the factors that lead to improvements or decline in livelihoods. This was done through detailed case-studies with 60 clients over a two year period.

Studies: A number of specific, discrete studies have been conducted, for example looking at savings, drop-outs, and business profiles. These have been fed into methodology improvements.

Impact monitoring: SEF's impact monitoring system monitors key variables at the level of individual, household and business. Data is collected about changes in members income, expenditure, housing conditions, food quantity/quality, savings, children's education, business strength and business diversification. The system also uses self-evaluation by the centres to assess members' problem solving abilities, participation in leadership positions in community structures, and satisfaction with SEF service and products.

The impact monitoring builds on the understanding developed through the detailed impact assessment research and gives a longitudinal view of changes in members' livelihoods. This process allows conclusions to be drawn about the relationship between impact and SEF's work.

Findings From The Tšhomišano Impact Assessment

1. Who is TCP reaching?

TCP is effective in targeting the poorest women in the communities in which it works, and is achieving reasonable success in terms of recruiting these women into the programme. Penetration rates after one or two years in a village are reaching an average of about 20 per cent of qualifying people, with some villages exceeding the 40 per cent target by a large margin. TCP is also effective in retaining the poorest people that it targets. The poorest people are most vulnerable to problems that might lead to them leaving the programme, but are statistically no more likely to drop-out than TCP members as a whole. However, the drop-out rate, particularly for first loans, remains unacceptably high. Effectiveness in retaining members in the early loan cycles is thus a key step towards achieving positive impact.

Although TCP primarily targets the economic manifestations of poverty, its strategies are based on a broader understanding of poverty. TCP members are commonly women who head households with erratic and insecure livelihoods. A central defining characteristic of extreme poverty is a lack of reliable income and high vulnerability. This is reflected in food insecurity, poor quality housing, poor clothing, poor sanitation, and an inability to consistently educate children and to educate them beyond primary school level. Poverty is also reflected in social marginalisation, with community attitudes and behaviour towards the poor being very negative. The poor often have low self-confidence and social skills, do not participate in community structures, and have weak social networks - particularly in terms of support in times of problems.

Most TCP members do have some previous experience in running their own business, but these businesses have typically been very weak and erratic, and have not been able to provide an adequate or reliable income source. Consequently, the vast majority of TCP members do not have a functioning business when joining the programme. Most TCP members start businesses with which they are personally familiar, or where they know other people running that type of businesses. There is, therefore, a fairly small range of business types commonly run by TCP members, with most being some sort of petty trading.

2. What is the quantitative impact of TCP?

Analysis of the impact monitoring data base demonstrates an overwhelming positive impact for TCP members. There are a small number of people who experience negative impact, but there are very few who experience severe negative effects. This is partly a result of the low starting point of members. In the main, however, there is a general movement towards increasing positive impact over time, as members move from one loan cycle to the next. Analysis of five impact indicators all show average increases for the programme over time, although the *rate* of change decreases.

2. What is the quantitative impact of TCP? (continued)

Contrary to the arguments of many academics (for example Hulme and Mosley) quantitative data suggest that TCP's poorest members perform at least as well as the average performance for the programme. This conclusion is also borne out by the qualitative analysis. What is also very clear from the case-studies is the high value of small initial livelihood changes. For example the securing of the business leads to a regular and reliable income. Small income changes for the very poor have proportionately much greater impacts on livelihood, than those for the better off. For example, the rapid and significant changes in impact scores related to food consumption provides evidence that small income changes are having great impacts. The pattern of increasing consumptive use of loans or business income on later loan cycles also suggests that livelihood changes are greatest for the very poor.

3. How does TCP change its members lives?

TCP facilitates the development of increasingly sustainable livelihoods through building secure incomes and other financial resources and by building the skills and assets to manage and continue to grow financial assets. The achievement of this positive impact is a combination of building a strong business that can provide a reliable and adequate income to meet basic household needs, with the development of assets to protect this income and reduce vulnerability. These assets include savings, which provides a fund to use in the case of emergencies and is a means of managing money to meet "lumpy" expenditure needs - for business or household purposes. Human assets, in terms of business, social and participation skills, are important in the effective management of the business and in terms of developing other livelihood opportunities. Children's education and the health of the family also contribute to the long term sustainability and protection of livelihood gains. Finally, the development of social networks and relationships with other people strengthen the social "safety-net" and improve the chances of support from other people in good times and bad. This TCP facilitates through the social networks of the groups and centres.

At an intra-household level, increased "independent" income for women, and control over resources builds their position to make decisions that are "good" for the household from their perspective. Although there are rare cases of increased conflict, there is substantial evidence that TCP membership strengthens their position within the household and builds confidence and sense of worth. Although SEF has not explicitly defined poverty-alleviation in terms of "empowerment", it is clear from our members and field staff that increased self-confidence, participation in wider structures, control of resources and decisions within the household, and improved perceptions of poor people by the rest of the community are important indicators of increased well-being.

4. TCP's methodology in facilitating impact

TCP has a relatively minimalist approach, in that it does address wider poverty issues. In part, this is due to the pressures of financial sustainability and the need to achieve efficiency in operations. It is also a consequence of a conscious decision to maintain a focus and "do what we do best". Beyond this there is also a strong ethic to recognise members' own abilities, to let members control as much of the process as possible and to build on members' own strengths. TCP's role is one of facilitation in helping members to realise their own potential. This approach in itself is empowering and contributes to the human and social asset development described above.

It is clear that the provision of credit alone would not achieve the kind of impacts described in this report. TCP has a strong emphasis on the member selecting an appropriate business, developing skills to manage this business, and linking the loan product to the business. These services are an essential part of a process of developing a stable and sustainable business. This is particularly important in the case of the very poor, where there are limited other income sources to make loan repayments with, and to support the business if it experiences problems.

Key aspects in the success of TCP's credit product are the pressure put on members to manage and grow their businesses, the linkage of loan size to business value, and the relatively short loan terms. TCP's loan products are flexible in that they allow each member to determine her own loan size, and to a limited degree, repayment terms.

SEF does not collect savings deposits but facilitates savings through the use of the Post Office. This is not ideal, but is a viable solution given the nature of the regulatory framework and the costs and security issues of SEF collecting deposits. Savings plays a key role in reducing the vulnerability of members, and in allowing for effective financial management.

In addition to providing financial services, TCP plays a key role in identifying and supporting the most vulnerable clients and works towards reducing this vulnerability. To this effect, staff and members are encouraged not to perceive members with problems as being "a problem", but as people who need support. Consequently TCP policies and practices aim to facilitate the reduction of member vulnerability, and to support problem-solving with business and personal problems, as they arise.

By developing a detailed understanding of the changes in member livelihoods, and the reasons for these changes, it has been possible to understand the role of TCP services in promoting positive impact. Tracking the effects of financial services is complex, particularly given the multiple facets of livelihoods at the individual and household level. However, for the very poor, where there are few income sources, it is relatively simple to determine the impact of a loan. The key challenge is to understand the extent and the sustainability of the changes observed.

Financial Performance

Financial Indicators for SEF (both MCP + TCP)				
	2000	1999	1998	Percentage Change 1999 to 2000
Loan Interest Income	R 4 164 736	R 2 566 919	R 1 026 690	62%
Operational Expenses	R 6 476 152	R 4 613 809	R 3 396 444	41%
Interest Paid	R 209 468	R 73 653	R 114 886	184%
Investment Interest Income	R 161 807	R 429 542	R 974 812	(62%)
Operational Self-Sufficiency	64%	56%	30%	

The growth in loan interest income is a result of a 50% increase in principal outstanding as well as the effective interest rate earned increasing from 57% to 59%.

Investment interest income decreased as investments were used to fund the increasing loan book. Interest paid increased substantially as SEF drew on loan facilities from Khula Enterprise Limited and Triodos Bank to further fund the loan book. Whereas for the last few years SEF has been able to fund the growth of its loan book from its own resources future increases will be funded from borrowings. Thus financial costs are set to continue increasing.

Operating self-sufficiency increased from 56% to 64% not far off projections of 66% at this stage.

MCP - The Micro-Credit Programme

Operational Indicators for MCP				
	2000	1999	1998	Percentage Change 1999 to 2000
Delinquency (over 1 day)	2.6 %	nil %	nil %	
Delinquency (over 30 days)	0.7 %	nil %	nil %	
Defaults for the year	R 1 190	nil	R 454	
Active Clients	8 492	7 155	5 243	19%
No. of loans disbursed in the year	11 399	9 667	6 845	18%
Amount Disbursed in the year	R 15 586 700	R 10 695 000	R 6 200 500	46%
Average loan disbursed to clients active at year end	R 1 419	R 1 213	R 990	17%
Principal Outstanding Before provision for bad debts	R 7 404 431	R 4 842 679	R 3 129 256	46%
Operational Self-Sufficiency	126%	116%	73%	
No. of Field Workers	43	39	27	10%
Programme staff	59	53	38	11%

During the past year the number of active clients in MCP grew by 19% to 8,492. This was, however, significantly below the 1999-2000 budget of 10,575. An in-depth analysis of this under-performance identified the following primary causes :

1. Insufficient management focus on this aspect of operations
2. The revised incentive scheme, as introduced in February 1999, lead to some field staff opting to maximise short term rewards by rapidly accelerating loan sizes, while group numbers remained stagnant. Although this possibility had been foreseen the organisation was not effective in countering such a strategy.
3. A persistent moderately high drop-out rate of 21% to 22% throughout the year.

MCP Management has been directed to address this growth problem and the incentive scheme has been suspended. It is anticipated that significant features of this scheme will be dropped and the focus moved from growth in principal outstanding to growth in active clients.

To address the above challenges, and in particular to allow time for improvement in management, the expansion of MCP is being slowed down. Current planning is to maintain the Zone at five branches instead of allowing it to open a further two branches. While operations are consolidated the existing branches will be reduced from eight Field Workers to seven. The number of Field Workers per branch and the possible opening of a sixth branch will be looked into towards the end of this financial year.

TCP - Tšhomišano Credit Programme

Operational Indicators for TCP				
	2000	1999	1998	Percentage Change 1999 to 2000
Delinquency (over 1 day)	2.3 %	0.5 %	nil %	
Delinquency (over 30 days)	0.1 %	0.2 %	nil %	
Defaults for the year	R 1 703	nil	nil	
Active Clients	2 722	1 477	901	84%
No. of loans disbursed in the year	4 468	2 571	1 362	74%
Amount Disbursed in the year	R 3 621 300	R 1 902 000	R 700 500	90%
Average loan disbursed to clients active at year end	R 825	R 834	R 556	-2%
Principal Outstanding	R 1 391 494	R 743 086	R 297 601	87%
Operational Self-Sufficiency	44%	30%	10%	
No. of Field Workers	18	11	11	63%
Programme staff	27	18	19	50%

Up until the early part of this financial year TCP had been limited to four branches and a maximum of eleven Field Workers. Significant changes in the average loan size sustained by TCP clients as well as field staff demonstrating that they were able to successfully manage portfolios of at least 300 clients led to a revision of TCP's sustainability projections. Based on this it was decided to expand TCP. A fifth branch was opened in June 2000 and all branches will be increased to six Field Workers. During the coming financial year performance will be monitored with a view to adding a sixth branch, possibly in the first half of the 2002 financial year.

At an institutional level, the reduction in the planned growth of MCP and the expansion of TCP extend's SEF's financial breakeven point to March 2004. Current projections indicate that SEF will be servicing 25 000 active clients by June 2005.

Vision and Mission

A variety of developments over the past six months have led to a reassessment of SEF's longer term vision and to the exploration of merging the MCP and TCP into one programme. The burden of managing two different programmes (two training programmes, two incentive schemes, two sets of research and development tasks, etc.) within one institution has become more apparent, especially as TCP expands to a full Zone. In addition, while MCP growth and overall performance over the last few months have not been as strong as expected, more confidence is developing regarding the potential success of TCP. Thus in a effort to streamline operations and develop one powerful strategic vision it has been decided to converge MCP and TCP into one model over the next few years.

Vision and Mission (continued)

In this model, in more mature TCP villages staff will begin to serve higher income clients while MCP staff will be trained in impact monitoring and support for the vulnerable. Products for MCP will be revised to ensure that they cater first to the needs of lower income clients, with less emphasis being placed on identifying clients with strong growth potential and on increasing loan sizes. Over time it is the intention that both Zones will adopt identical policies.

Floods and Disaster Loans

During February and March SEF's operational area experienced the worst flood damage and the heaviest rainfall in recorded history. The result was many poor families being left homeless, the destruction of many businesses run by the poor and loss of income by farm workers, an important market for micro-enterprises, due to crop damage on commercial farms. SEF responded to the floods by surveying its members to identify those most badly affected and thereafter disbursed 375 "Disaster Loans" to the value of R 319 000, to assist clients to rebuild their homes and businesses.

These loans were structured very differently from all previous loan products; no group guarantee was required and repayment will be in small installments over 40 fortnights (roughly 20 months). The idea behind this action was to react quickly in the face of human suffering and the organisation was very much aware of the risks it was taking in terms of possible loan losses. The impact of these loans and the effectiveness of the methodology will be measured over time.

Human Resources

During the year the Field Worker training programme was integrated into the Human Resources function. This function is now responsible for the basic training programmes for all Field Workers, Senior Field Workers and Branch Managers.

The year also saw 22 managers participating in a First Line Supervisors Course, conducted over a two month period. SEF contracted the development of a five day facilitation skills course which has been piloted with twelve field staff and is now being taken to all field staff.

Other training which took place included a visit to PRODEM and Banco Sol, in Bolivia, by the MCP and TCP Zonal Managers. This exposed these managers to the reality of microfinance in a highly competitive environment. SEF's Financial Manager attended three weeks at the Microenterprise Training Institute at New Hampshire College, USAID provided the stipend for this, and CGAP provided a stipend for the Operational Development Coordinator to attend a microfinance course at the Economics Institute in Boulder, Colorado.

The organisation is well on track in terms of the requirements of the Employment Equity Act and overall the organisation measures very well in terms of these criteria. An employment equity audit has been conducted, a consultative body set up and an employment equity plan is in place. SEF now has a total of 98 full time staff, 49% of whom are women.

The Contribution of SEF's Staff (continued)

For the first time this year we introduced awards for the best branches in MCP and TCP as well as a SEF Cup which is awarded to "The Employee of the Year". This latter award recognises the person who most embodies the spirit of SEF and who displayed through her/his actions commitment to SEF's mission and vision. This award went to Cairo Mongwe. The branch awards went to Phalaborwa Branch, headed by Mishack Mathale, and Vuwani Branch, headed by Gabriel Rapatsa.

On behalf of the Board of Directors and the organisation as a whole I would like to congratulate all of these staff members for their excellent achievements and contributions to our work.

On a sad note I also report here the passing of Mishack Mathale, the Phalaborwa Branch manager, who died in August 2000. Mishack was one of MCP's leading branch managers, with his branch winning all quarterly performance awards in 1999. He was an excellent team builder and much respected and appreciated by all staff members. Mishack will be sincerely missed. On behalf of the Directors and the organisation as a whole I would like to extend our condolences to his family.

Over the years we have been most fortunate to have several volunteers/interns work with SEF. These individuals pay for their own costs to travel to South Africa and cover the majority of their expenses while working with the organisation. We have benefited considerably from their skills and enthusiasm and I would like to thank them for their contribution to our efforts. During this year we were fortunate to benefit from the work of Salene Austin, David Berkowitz, Nahad Sadr-Azodi, Peter Lekhota, Peter Kojentinsky and Karen Moore.

This financial year saw strong growth for TCP and considerable challenges resulting from previous strong growth for MCP. I wish here to recognise the dedication and commitment of SEF's staff in facing up to and dealing with these challenges. On behalf of SEF's directors I wish to thank all of SEF's staff for loyalty to SEF's mission and their positive approach and untiring hard work during this period.

John de Wit
Managing Director
31 August 2000

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ANNUAL FINANCIAL STATEMENTS
30 JUNE 2000

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The annual financial statements, set out on pages 2 to 18, were approved by the board of directors on 25 November 2000, and are signed on its behalf by:

J. R. Morgan

Director

Director

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QUALIFIED REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION

Introduction

We have audited the annual financial statements of The Small Enterprise Foundation set out on pages 2 to 18 for the year ended 30 June 2000. These annual financial statements are the responsibility of the directors. It is our responsibility to report on these annual financial statements.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes:

- examining, on a test basis, evidence supporting amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Qualification

In common with similar organisations, it is not feasible for the company to institute accounting controls over cash collections from grants received prior to the initial entry of the receipts in the accounting records. Accordingly, it was impracticable for us to extend our examination beyond the receipts actually recorded.

Audit opinion

Except for the effects of any adjustments which might have been necessary had it been possible for us to extend our examination of cash collections from grants, in our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 30 June 2000, and the results of its operations and cash flow information for the year then ended in conformity with South African Generally Accepted Accounting Practice, and in the manner required by the Companies Act.

Deloitte & Touche

25 November 2000

Deloitte Touche Tohmatsu

THE SMALL ENTERPRISE FOUNDATION
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REPORT OF THE DIRECTORS
30 JUNE 2000

The directors have pleasure in presenting their report on the company for the year ended 30 June 2000.

BUSINESS REVIEW

The principal business of the organisation is to motivate the poor to take up income generating activities and to extend credit to micro-entrepreneurs to enable them to realise their potential and thereby generate income and employment.

The Small Enterprise Foundation ("SEF"), has since inception, granted 52 845 (1999 : 36 978) loans to the value of R 49 965 600 (1999 : R 30 757 600). At year end the loans supported 23 585 (1999 : 19 772) jobs, being 2,1 jobs (1999 : 2,3 jobs) per loan.

OPERATING RESULTS

Results for the year ended 30 June 2000 are set out on page 4 of the financial statements and require no further comment.

LOAN LOSS RESERVES

In cases where borrowers experience death amongst their members, the company will decrease the group's repayment and write-off the amount owed by the member. Such write-offs are classified as death write-offs and are included under operating expenses. During the year under review an amount of R 40 177 (1999 : R 8 530) was written off.

A debt is declared bad once it is 84 days in arrears. An amount of R 2 894 was withdrawn during the year under review (1999 : R Nil). In view of this the general provision was retained at 1%. An additional provision of R 28 428 (1999: R 5 019) was raised in the current year.

We believe that the nature of the lending procedures, the diligence of the field staff, and the commitment of clients, give reason for believing that this excellent performance. will be maintained.

The only instances where the organisation allows the renegotiation of delinquent loans is where clients are able to provide medical evidence of long term illness. Such amounts are not written off, and the respective clients are urged to continue with loan repayments when their condition improves. The accumulative amount renegotiated in this way since inception and still outstanding at year end was R 58 945 (1999 : R18 299).

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS (continued)
30 JUNE 2000

DIRECTORS AND SECRETARY

There were no changes in the composition of the board and the directors in office at the financial year end and, at the date of this report, were as follows:

Mr Matome Patrick Malatji (Chairperson)
Mr John Robert de Wit (Managing Director)
Ms Marie Albertina Kirsten
Mr Mutle Constantine Mogase
Ms Daphne Ramaisela Motsepe
Mr Matome Nathaniel Ramalepe

Secretary - J R de Wit

<u>Business Address</u>
42 Boundary Street
Tzaneen
0850

<u>Postal Address</u>
P O Box 212
Tzaneen
0850

POST BALANCE SHEET EVENTS

No events have occurred between the financial year end and the date of this report that would have a material adverse effect on either the operations of the company or its financial position.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
INCOME STATEMENT
for the year ended 30 JUNE 2000

	Notes	2000 R	1999 R
OPERATING INCOME			
Loan interest earned		4 164 736	2 566 919
Interest on investment		161 807	429 542
Interest paid		(209 468)	(73 653)
Bad debts		(2 894)	-
MARGIN ON LENDING ACTIVITIES		4 114 181	2 922 808
Operating expenses		(4 142 279)	(3 074 945)
OPERATING LOSS		(28 098)	(152 137)
Sundry income		1 352	3 183
Loss on disposal of property and equipment		(1 963)	-
LOSS before head office expenses		(28 709)	(148 954)
Head office expenses		(2 329 016)	(1 538 864)
LOSS before grants	1	(2 357 725)	(1 687 818)
Operational grants received	2	2 540 120	2 486 527
NET INCOME for the year		182 395	798 709

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
BALANCE SHEET
at 30 JUNE 1999

	Notes	1999 R	1998 R
CAPITAL EMPLOYED			
NON-DISTRIBUTABLE RESERVE	3	461 332	366 786
GENERAL CAPITAL RESERVE	4	587 953	582 523
DEVELOPMENT RESERVE	5	6 654 460	6 654 460
EDUCATIONAL RESERVE	6	5 300	2 300
OPERATIONAL GRANT RESERVE	7	99 931	512 726
RETAINED INCOME		993 821	289 658
EQUITY FUNDS		8 802 797	8 408 453
LONG-TERM LOANS	8	500 000	-
TOTAL CAPITAL EMPLOYED		9 302 797	8 408 453
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	9	655 750	604 654
INVESTMENTS	10	1 529 679	1 413 732
CURRENT ASSETS			
Loans	11	5 585 765	3 375 454
Accounts receivable		61 167	96 349
Cash and short-term funds		2 467 269	3 811 396
Total current assets		8 114 201	7 283 199
CURRENT LIABILITIES			
Accounts payable		306 819	203 854
Bank overdraft	13	190 014	157 373
Current portion of long-term loan	8	-	531 905
Short term loan	12	500 000	-
Total current liabilities		996 833	893 132
NET CURRENT ASSETS		7 117 368	6 390 067
TOTAL EMPLOYMENT OF CAPITAL		9 302 797	8 408 453

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
BALANCE SHEET
at 30 JUNE 2000

	Notes	2000 R	1999 R
ASSETS			
PROPERTY AND EQUIPMENT	9	683 891	655 750
INVESTMENTS	10	562 292	1 529 679
CURRENT ASSETS			
Loans (principal outstanding)	11	8 711 075	5 585 765
Accounts receivable	12	96 006	61 167
Cash and short-term funds		2 080 041	2 467 269
TOTAL CURRENT ASSETS		10 887 122	8 114 201
TOTAL ASSETS		12 133 305	10 299 630
LIABILITIES			
FUNDS			
Non-distributable reserve	3	366 786	461 332
General capital reserve	4	587 953	587 953
Development reserve	5	6 654 460	6 654 460
Educational reserve	6	5 300	5 300
Operational grant reserve	7	-	99 931
Retained income		1 270 762	993 821
TOTAL FUNDS		8 885 261	8 802 797
LIABILITIES			
Accounts payable		541 055	306 819
Short term loan	13	1 592 145	500 000
Bank overdraft	14	114 844	190 014
Long term loan	8	1 000 000	500 000
TOTAL LIABILITIES		3 248 044	1 496 833
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		12 133 305	10 299 630

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
STATEMENT IN CHANGES OF EQUITY
for the year ended 30 JUNE 2000

	Note	Non-distributable reserve R	General capital reserve R	Retained income R	Development reserve R	Education reserve R	Operation grants reserve R	Total R
Balance as at 30 June 1998		366 786	582 523	289 658	6 654 460	2 300	512 726	8 408 453
Revaluation of investment		94 546	-	-	-	-	-	94 546
– grants for year		-	5 430	-	-	-	-	5 430
– grant's for year		-	-	-	-	3 000	-	3 000
– utilised to cover costs		-	-	-	-	-	(412 795)	(412 795)
Profit for the year		-	-	798 709	-	-	-	798 709
Transfer to non-distributable reserve		-	-	(94 546)	-	-	-	(94 546)
Balance as at 30 June 1999		461 332	587 953	993 821	6 654 460	5 300	99 931	8 802 797
Revaluation of investment	3	(94 546)	-	-	-	-	-	(94 546)
Operational grant reserve – utilised to cover costs		-	-	-	-	-	(99 931)	(99 931)
Profit for the year		-	-	182 395	-	-	-	182 395
Transfer from non-distributable reserve	3	-	-	94 546	-	-	-	94 546
		366 786	587 953	1 270 762	6 654 460	5 300	-	8 885 261

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
CASH FLOW STATEMENT
for the year ended 30 JUNE 2000

	Notes	2000 R	1999 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised by operations	A	(5 190 587)	(4 072 834)
Interest on investment		161 807	429 542
Interest paid		(209 468)	(73 653)
Net cash outflow from operating activities		(5 238 248)	(3 716 945)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(77 031)	(94 133)
Proceeds on disposal of property and equipment		3 500	-
Increase / (decrease) in investments		967 387	(115 947)
Net cash inflow / (outflow) from investing activities		893 856	(210 080)
CASH FLOWS FROM FINANCING ACTIVITIES			
Operational grant reserve utilised		(99 931)	(412 795)
Operational grant received		2 540 120	2 486 527
Capital grants received		-	8 430
Long-term loans repaid		-	(531 905)
Increase in long term loans		500 000	500 000
Increase in short term loans		1 092 145	500 000
Net cash inflow from financing activities		4 032 334	2 550 257
NET DECREASE IN CASH AND CASH EQUIVALENTS		(312 058)	(1 376 768)
Cash and cash equivalent at beginning of period		2 277 255	3 654 023
CASH AND CASH EQUIVALENTS AT END OF PERIOD	B	1 965 197	2 277 255

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE CASH FLOW STATEMENT
for the year ended 30 JUNE 2000

	2000 R	1999 R
A. RECONCILIATION OF LOSS BEFORE OPERATIONAL GRANTS RECEIVED TO CASH GENERATED FROM OPERATIONS		
Loss before grants	(2 357 725)	(1 687 818)
Adjusted for :		
Interest on investment	(161 807)	(429 542)
Interest paid	209 468	73 653
Depreciation	43 427	43 037
Loss on disposal of property and equipment	1 963	-
Operating loss before working capital changes	(2 264 674)	(2 000 670)
(Increase)/decrease in accounts receivable	(34 839)	35 182
Increase in accounts payable	234 236	102 965
Increase in operating assets – principal outstanding	(3 125 310)	(2 210 311)
Cash utilised by operations	(5 190 587)	(4 072 834)

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprised the following balance sheet amounts:

	2000 R	1999 R
Cash and short term funds	2 080 041	2 467 269
Bank overdraft	(114 844)	(190 014)
	1 965 197	2 277 255

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
ACCOUNTING POLICIES
30 JUNE 2000

The annual financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies, which have been consistently applied in all material respects :

1. Loan interest earned

Given the risk profile of the loans book, interest earned on loans is suspended until received.

2. Other interest received

Other interest received is accrued on a daily basis.

3. Grants received

Operational grants received

These are grants which are specifically designated as being for operational expenses, where the expenses to which they relate have actually been incurred and charged to income in the same period, and where all the contractual conditions for payment of the grant amount have been met. Where such grants have not been fully utilised during the relevant period, the balance remaining is transferred to reserves.

Grants for loan capital

Grants designated for loan capital are taken directly to General Capital Reserve.

4. Investments

Investments are stated at cost less amounts written off. Where, in the opinion of the directors, a permanent diminution in value has occurred, a provision is raised and charged to the income statement.

5. Property and equipment

Property and equipment are depreciated on historical cost using the straight line method over the estimated useful lives of the assets, using the following rates :

Furniture and fittings	10 years
Office equipment	7 years
Computer equipment	5 years
Motor vehicles	4 years

Land and buildings are not depreciated.

	2000 R	1999 R
1. LOSS BEFORE GRANTS		
The loss before grants is arrived at after taking into account the following:		
Depreciation	43 427	43 037
Auditors remuneration		
– statutory audit	42 693	35 000
– USAID recipient audit	24 396	20 000
– audit expenses	6 911	9 000
Directors' emoluments		
– For managerial duties	334 036	283 651
– Expenses relating to managerial duties	6 539	22 981
Loss on disposal of property and equipment	1 963	-
Current year movement in provision for bad debts	28 428	5 019
2. OPERATIONAL GRANTS RECEIVED		
Ford Foundation	99 931	412 795
USAID	2 440 189	2 073 732
	2 540 120	2 486 527

No donations or subsidies in kind were received during the year under review (1999 : R Nil).

	2000 R	1999 R
3. NON-DISTRIBUTABLE RESERVE		
Revaluation of guaranteed capital investment		
Balance at beginning of year	461 332	366 786
Revaluation of investment	(94 546)	94 546
Balance at end of year	366 786	461 332

	2000	1999
	R	R

4. GENERAL CAPITAL RESERVE

The General Capital Reserve comprises grants received from donors other than USAID (see Development Reserve note 5). Such grants are, for the most part, non-recurring grants from a variety of organisations wanting to express their interest in, and support of, the work performed by The Small Enterprise Foundation. All grants have been designated by the donors concerned as Loan Capital to be utilised for future disbursements of loans to members.

	2000 R	1999 R
Balance at beginning of the year	587 953	582 523
Grants for year	-	5 430
	587 953	587 953

5. DEVELOPMENT RESERVE

The Development Reserve comprises solely grants received from USAID in terms of a five year agreement which expired in September 1995. Such funds were designated by USAID as Financial Structure support. As with General Capital reserve, all such grants are designated as Loan Capital to be used for future disbursements of loans to members.

	2000 R	1999 R
Balance at end of year	6 654 460	6 654 460

	2000	1999
	R	R

6. EDUCATIONAL RESERVE

The Educational Reserve comprises a grant from a group of workers at LAPA, Toronto, Canada. The donors have requested the funds be used to disburse educational loans to existing members of the organisation under an educational loan programme introduced in 1998.

	2000 R	1999 R
Balance at the beginning of year	5 300	2 300
Grants for the year	-	3 000
Balance at the end of year	5 300	5 300

7. OPERATIONAL GRANT RESERVE

Ford Foundation

A grant of US$100 000 was approved to cover operational costs relating to action research aimed at improving the impact and sustainability of TCP. This research will take place through to January 2000.

	2000 R	1999 R
Grant at the beginning of year	99 931	512 726
Utilised to cover costs	(99 931)	(412 795)
Balance at the end of year	-	99 931

	2000 R	1999 R

8. LONG TERM LOAN

Triodos Bank of the Netherlands has approved a total loan facility for R 1 million. The loan is redeemable in South African Rand, in two instalments of R 500 000 each, on 1 July 2004 and 1 July 2005 respectively. No specific grace period is specified in the contract.

Interest is paid at a rate of 4% below prime, with a minimum of 14% and a maximum of 18% per annum, and is payable six monthly in arrears.

The purpose of the loan is to increase the working capital for onlending to micro entrepreneurs. The loan is secured by a first session of the advances to micro entrepreneurs financed by this loan facility.

	2000 R	1999 R
Balance at beginning of the year	500 000	-
Amounts received during the year	500 000	500 000
	1 000 000	500 000

The average balance outstanding during the year, calculated on a straight line basis, was R 750 000 (1999 : R 250 000).

Interest accrued and paid during the period amounted to R 140 000 (1999 : R 70 000).

There were no arrears in respect of this loan during the year under review (1999 : R Nil).

9. PROPERTY AND EQUIPMENT

2000

	Land & Buildings	Furniture & Fittings	Office Equipment	Computer Equipment	Motor vehicles	Total
	R	R	R	R	R	R
Cost						
At beginning of the year	494 037	96 216	100 271	110 407	11 623	812 554
Additions	21 860	25 614	17 119	12 438	-	77 031
Disposals	-	-	(18 137)	(8 626)	-	(26 763)
At end of year	515 897	121 830	99 253	114 219	11 623	862 822
Accumulated depreciation						
At beginning of year	-	24 037	61 644	63 616	7 507	156 804
Additions	-	11 049	14 799	14 673	2 906	43 427
Disposals	-	-	(18 137)	(3 163)	-	(21 300)
At end of year	-	35 086	58 306	75 126	10 413	178 931
Net book value	515 897	86 744	40 947	39 093	1 210	683 891

9. PROPERTY AND EQUIPMENT (continued)

1999

	Land & Buildings	Furniture & Fittings	Office Equipment	Computer Equipment	Motor vehicles	Total
	R	R	R	R	R	R
Cost						
At beginning of the year	472 873	67 296	83 457	83 172	11 623	718 421
Additions	21 164	28 920	16 814	27 235	-	94 133
At end of year	494 037	96 216	100 271	110 407	11 623	812 554
Accumulated depreciation						
At beginning of year	-	15 580	45 991	47 595	4 601	113 767
Additions	-	8 457	15 653	16 021	2 906	43 037
At end of year	-	24 037	61 644	63 616	7 507	156 804
Net book value	494 037	72 179	38 627	46 791	4 116	655 750

	2000	**1999**
	R	**R**
The land and building is situated on Erf 199 in the township of Tzaneen Extension 4, Registration Division LT, Northern Transvaal. The directors value the above property on open market basis at R 515 897 (1999 : R 500 000).		
Purchased on 10 March 1998	410 000	410 000
Improvements in 1998	62 873	62 873
Improvements in 1999	21 164	21 164
Improvements in 2000	21 860	-
	515 897	494 037

		2000 R	1999 R
10.	**INVESTMENTS**		
	Listed		
	Investec Bank Limited - Investec Equity Fund	278 526	268 962
	- Fedsure General Equity Fund	283 766	269 783
	- Guarantee Capital Trust	-	990 934
		562 292	1 529 679

The market value of the investments on 30 June 2000 amounted to R 821 974 (1999 : R1 810 196).

		2000 R	1999 R
11.	**LOANS (PRINCIPAL OUTSTANDING)**		
	Loans outstanding	11 060 240	7 174 111
	Unearned interest	(2 264 315)	(1 531 924)
	Provision for bad debts	(84 850)	(56 422)
		8 711 075	5 585 765
	Movement in the provision for doubtful debts		
	Balance at beginning of year	56 422	51 403
	Current year movement in provision for bad debts	28 428	5 019
	Balance at end of year	84 850	56 422

The entity is operational in Tzaneen and the surrounding area in the Northern Province, South Africa. Individual loans do not exceed R 10 000.

Effective interest rates, based on a declining balance, range from 46% to 66%.

11. LOANS (PRINCIPAL OUTSTANDING) (continued)

Amounts written off during the year were expensed directly to the income statement.

A total amount of R 84 215 (1999 : R 5 586) was in arrears at the financial year end. An analysis of the arrears for the current year is presented below :

	R
30 days	46 346
60 days	22 581
90 days	14 664
Over 90 days	624
Total	84 215

	2000 R	1999 R
12. ACCOUNTS RECEIVABLE		
Included in accounts receivable is an amount for staff debtors. These constitute small loans available generally to all employees. Expenses incurred on behalf of the business, to be re-imbursed, are also included in this balance. These loans are interest free. There were no arrears in respect of staff loans (1999 : R Nil) at the financial year end. Loans are normally repaid over a period of two years.		
Staff debtors and other accounts receivable	54 938	31 449
13. SHORT TERM LOAN		
The amount represents a working capital loan from Khula Enterprises Limited. The loan bears interest at a rate of 14.5% per annum. Interest is payable monthly in arrears. The capital portion of the loan is payable within ten months of receipt of the loan.		
This loan is secured by a cession of the Khula end user loans.	1 592 145	500 000

14. BANK OVERDRAFT

A bank overdraft facility of R 60 000 (1999 : R 60 000) is available from Nedbank. This facility is secured by a personal surety by J R de Wit.

A bank overdraft facility of R 100 000 from The Standard Bank Limited was available in the prior year. The facility was unsecured. This facility was cancelled during the current financial year.

15. TAXATION

No provision has been made for taxation as the company has an estimated tax loss of R 6 129 655 (1999 : R3 766 959).

16. RETIREMENT BENEFITS

All permanent employees of the company are members of the Old Mutual Orion Provident Fund. The provident fund is in the nature of a defined contribution plan where the retirement benefits are determined with reference to the employee's contributions to the fund.

17. FAIR VALUES

At 30 June 1999 and 2000 respectively, the carrying amounts of cash and short term funds, loans, accounts receivable, accounts payable, the short term loan and the bank overdraft approximated their fair values due to the short term maturities of these assets and liabilities.

18. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified in order to afford consistent disclosure.